

Fiscal Outlook for FY 2016 - FY 2018

Budget Study Session

March 3, 2015



Manageable FY 16 Budget

- City has had two years of no reductions since emerging from the Great Recession
- FY 15 and FY 16 had previously been seen as transition years to a more difficult budget situation beginning in FY 17
- Budget projection updates show this still to be the case
 - Revenues and recovery somewhat better than projected
 - Pension situation somewhat better due to investment returns
 - But major decline in oil revenue
- The budgets for FY 16 and beyond are our investment in the future and the springboard to paying down past unfunded liabilities and adjusting to the current price of oil
- Long Beach has a recent history of strong financial management and will continue to manage through these issues



Long Beach is on Solid Footing

- Mayor and City Council have provided strong financial management and guidance for Long Beach
- Increased financial reserves
- Attained pension reform
- Maintained a very good bond/credit rating (AA-)
- Invested in new technology and infrastructure
- Enhanced economic development efforts
- Continued to work on financial issues and cost savings
- Maintained a full range of city services through use of Proportionate Share



Examples of Strong Financial Management

- \$134 million and almost 700 positions cut since FY 2007
- Saved the temporary surpluses from FY 14 and FY 15 to strengthen future finances
- Held the line on new spending because of expected future budget issues
- Investments in efficiency improvements and critical infrastructure:
 - Park irrigation upgrades and artificial turf conversion
 - Purchase of fuel efficient vehicles and anti-idling technology
 - Purchase and installation of smart parking meters
 - Additional funds for Pavement Management Plan implementation
 - Beach area improvements
 - Convention Center improvements
 - Funding of North Library and East Police Substation
 - Planning for new Civic Center



Examples of Strong Financial Management

- Operational and Efficiency Improvements:
 - Eliminated hundreds of vehicles from City fleet
 - Consolidated clerical staffing
 - Streamlined permit fees and consolidated inspection services
 - Reduced management personnel
 - Implemented more efficient ambulance service
 - Implemented LBCOP to leverage technology to fight crime
 - Implementing new systems:
 - utility billing system
 - parking citation system
 - business license system (in process)
 - financial and HR systems (in process)
 - Electronic Plan Check system (in process)



Examples of Strong Financial Management

- Economic Development:

- New businesses:

- Virgin Galactic
 - Mercedes-Benz
 - Douglas Park medical, commercial & industrial offices and buildings
 - Courtyard by Marriott
 - Pike retail
 - Many new restaurants

- New housing:

- Parc Broadway (222 units)
 - The Current (223 units)
 - Pine Square (69 units)
 - The Edison (156 units)



Examples of Strong Financial Management

- Increased tourism, hotel occupancy & filming activity
- Bloomberg Innovation Grant
- Other revenue improvements:
 - Attract new revenue such as Office Depot
 - Maximize City's share of Use Tax
 - Pursue full cost recovery in setting fees
 - More aggressive collection procedures on unpaid fines



Review of Current Year (FY 15)

- Improving economy
- Property taxes and Transient Occupancy Tax recovering
- Balanced as a result of discipline and prudent decisions
- No service reductions
- Funded police and fire academies
- Continued to work on outstanding financial issues and cost savings
- CalPERS returns have been good, minimizing the growth of future pension costs
- Decline in oil prices have negative impact on budget



History of Oil Prices

Wilmington Oil Price 2007-2014

\$ per barrel



Oil's Dramatic Revenue Decline

- Projected \$20 million reduction in Uplands revenue and a \$30 million reduction in Tidelands revenue (budgeted impact is less due to \$70 per barrel budget for operations)
- The impact of these oil revenue declines in FY 15 will have a projected impact on operations by \$5 million in Uplands and \$1 million in Tidelands

Oil Revenue in \$ Millions

	FY 14 Actual	FY 15 Budget	FY 15 Projected	FY 16 Projected	FY 17 Projected	FY 18 Projected
Uplands	32.3	17.5	12	12	11	11
Tidelands	42.7	38.6	12	11	12	17



More Difficult Budget Times After FY 16

- Budget balancing, pension reform and discipline have positioned us in a better place than other cities
- Expense growth has been and is likely to continue to outpace revenue growth for foreseeable future
- FY 15 will probably be in balance due to one-time and structural revenue growth offsetting oil revenue decline
- Oil has made new FY 16 projection worse than last year, but the City's revenue growth and good financial management have covered much of the drop in General Fund related oil revenue
- FY 17 and beyond still are the more significant shortfalls primarily driven by paying down unfunded liabilities through higher pension costs, but the shortfalls are not at the level of the Great Recession years



Unfunded Liabilities

Unfunded Liabilities	
(In millions of \$)	
CalPERS Pension	834
Sick Leave	134
Retiree Health Subsidy	143
Workers' Compensation	111
Total	1,222

- Improvement from \$1.4 billion total last year
- Reduction of the CalPERS unfunded liability is a wise long-term investment that will ultimately save money
- CalPERS employer rate increases will eliminate the unfunded liability for pensions over time, but at a cost to the budget beginning in FY 16

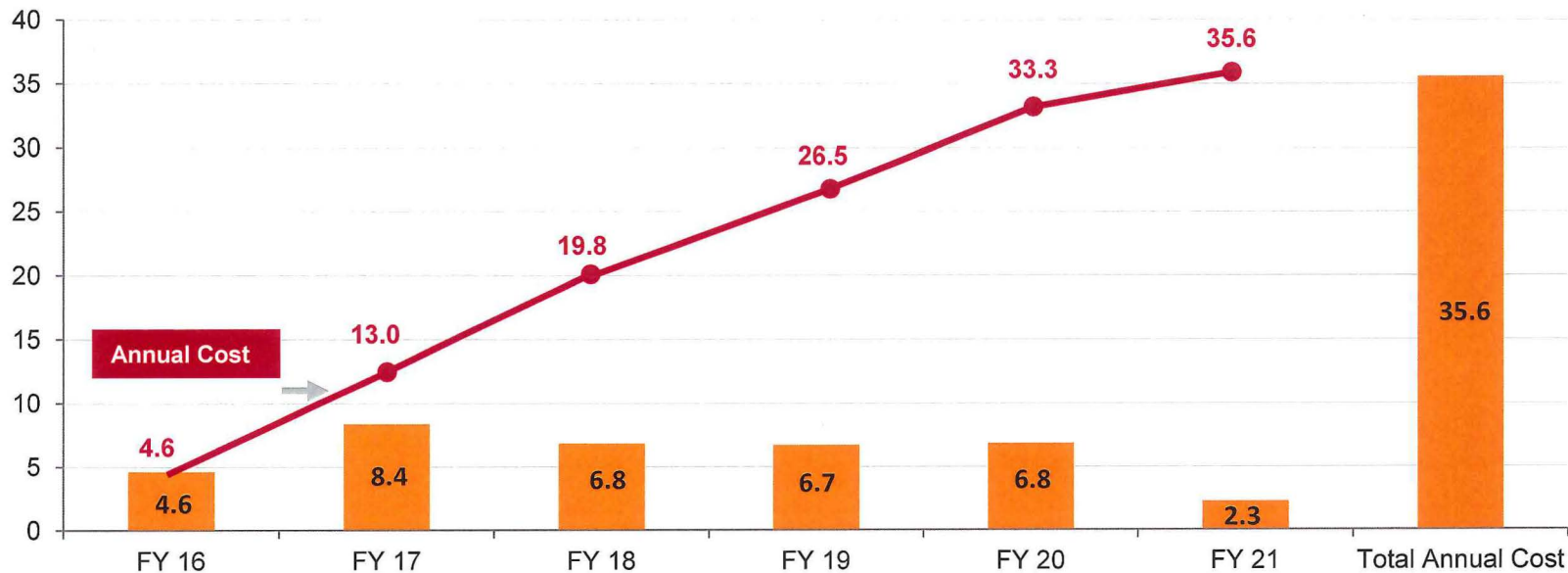


The CalPERS Challenge

- Large CalPERS pension cost increases will begin in FY 16
- Projection of these costs were presented to the City Council during the FY 15 budget adoption process (see chart below)

Annual Increase in General Fund Expenses from CalPERS Smoothing and Mortality Assumption Changes

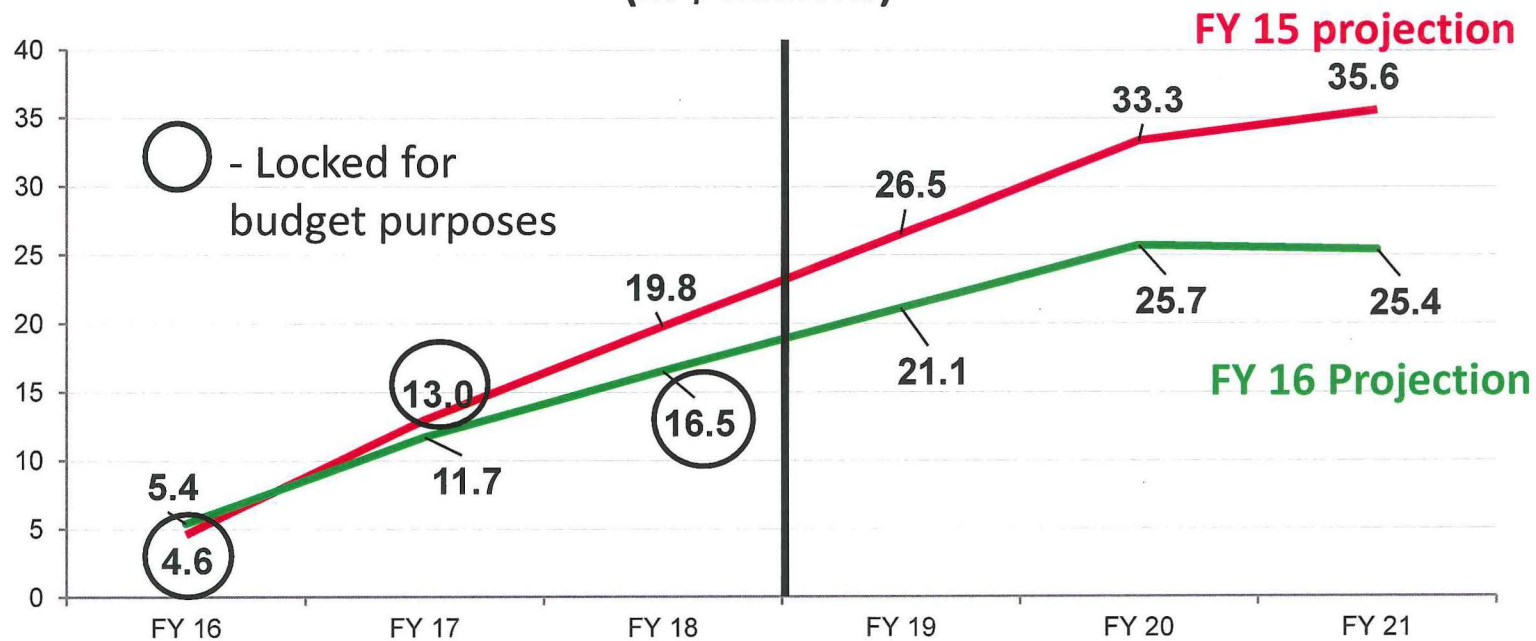
(In millions of \$)



CalPERS Costs Better But Still High

- CalPERS investment earnings last year were very good and have lower projected pension costs
- CalPERS Stabilization Fund has allowed us to lock in General Fund budget impact

**Projected Cumulative CalPERS Cost Change – General Fund
(in \$ millions)**



Key Items Impacting FY 16 – FY 18

- Revenue Changes:
 - Growing revenues: Property Tax, Electric UUT, VLF, TOT
 - Declining revenues: Uplands Oil revenue, Oil Production Tax, Prop H
- Expense Changes:
 - Pay down our unfunded liability through increased pension contributions
 - Increasing benefit costs such as health care
 - Increasing cost for storm water compliance and other liabilities
 - City Council approved enhancements:
 - Improved Parks and Recreation facilities/parks
 - North Library
 - Language Access Plan
 - Technology & Innovation Commission
 - Not included in projection: small business incentives, PLA administration, and medical marijuana regulation



Assumptions and Uncertainties FY 16 – FY 18

- Revenues use one-time sales tax as a transition to FY 17
- CalPERS costs able to be locked in through FY 18 due to the use of CalPERS Stabilization fund
- Assumes the economy will continue to be good, but it is uncertain and revenue growth is difficult to predict
- Projections make no assumptions about current or upcoming negotiations

Association	Contract Expiration
IAM	9/30/14 (FY 14) (Currently in negotiations)
City Attorneys (CAA) City Prosecutors (CPA) Confidential Employees (ACE) Engineering Employees (AEE) Management Employees (LBMA) Lifeguards (LGA)	9/30/15 (FY 15)
Firefighters (FFA) Police Officers (POA)	9/30/16 (FY 16)



Fiscal Outlook for FY 16 – FY 18

(In Millions of \$)	FY 16	FY 17	FY 18
Prior Projection - Surplus/(Shortfall)	0.6	(7.9)	N/A
Current Projection - Surplus/(Shortfall)	(1.0)	(9.3)	(7.3)

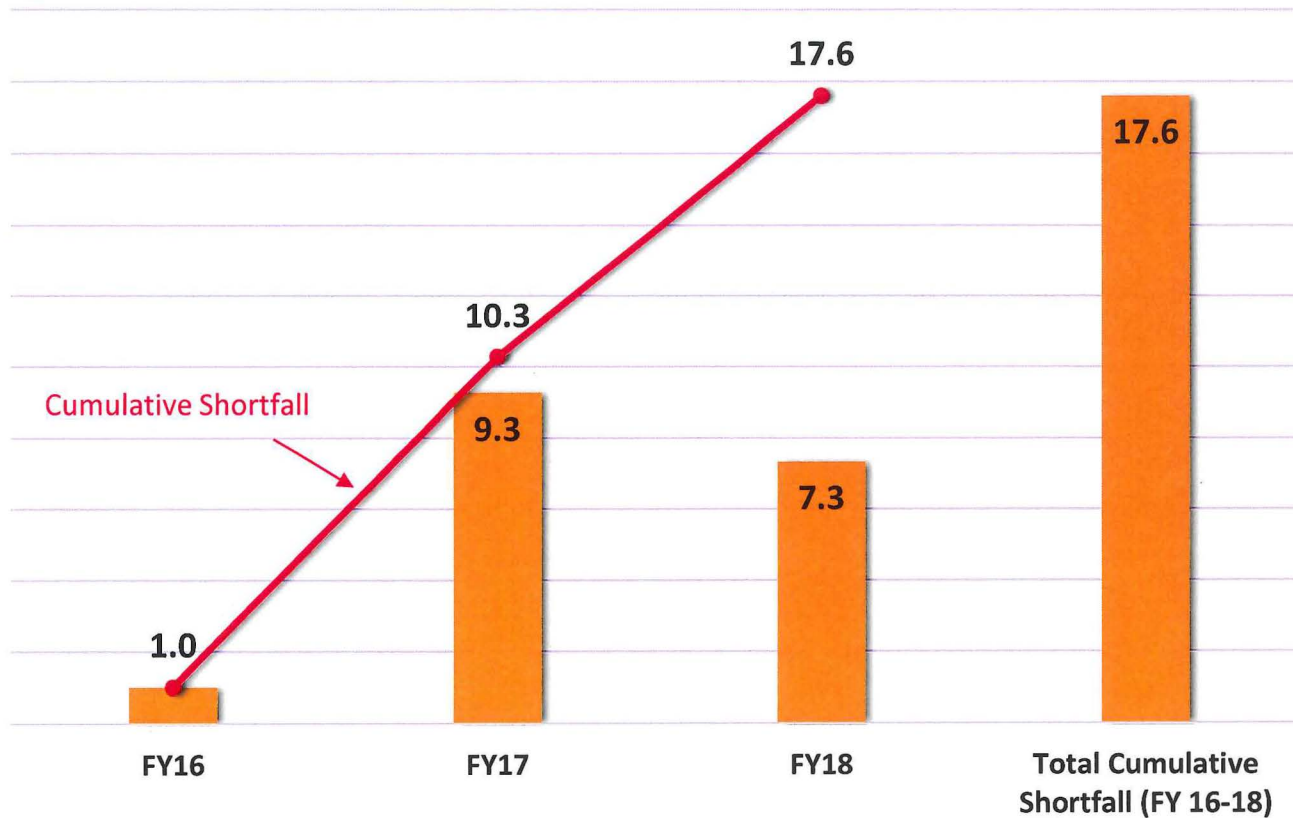
- FY 16 would have shown a larger surplus than originally projected, but for the \$6 million decline due to the price of oil
- Shortfalls seem likely to continue until FY 20 due to pension increases



Fiscal Outlook for FY 16 – FY 18

- The 3-year shortfall is projected at \$17.6 million total, but only \$1 million in FY 16

Yearly and Cumulative Budget Shortfall
(In Millions of \$)



Basic Approach to FY 16

- Maintain strong financial management
- Use FY 16 as a transition year to more difficult years in FY 17 and FY 18
- Balance FY 16 budget by using relatively small Proportionate Share reductions
- Develop plans during FY 16 for FY 17 and FY 18 likely reductions
- Continue to look for ways to reduce costs and increase revenues



What is Proportionate Share?

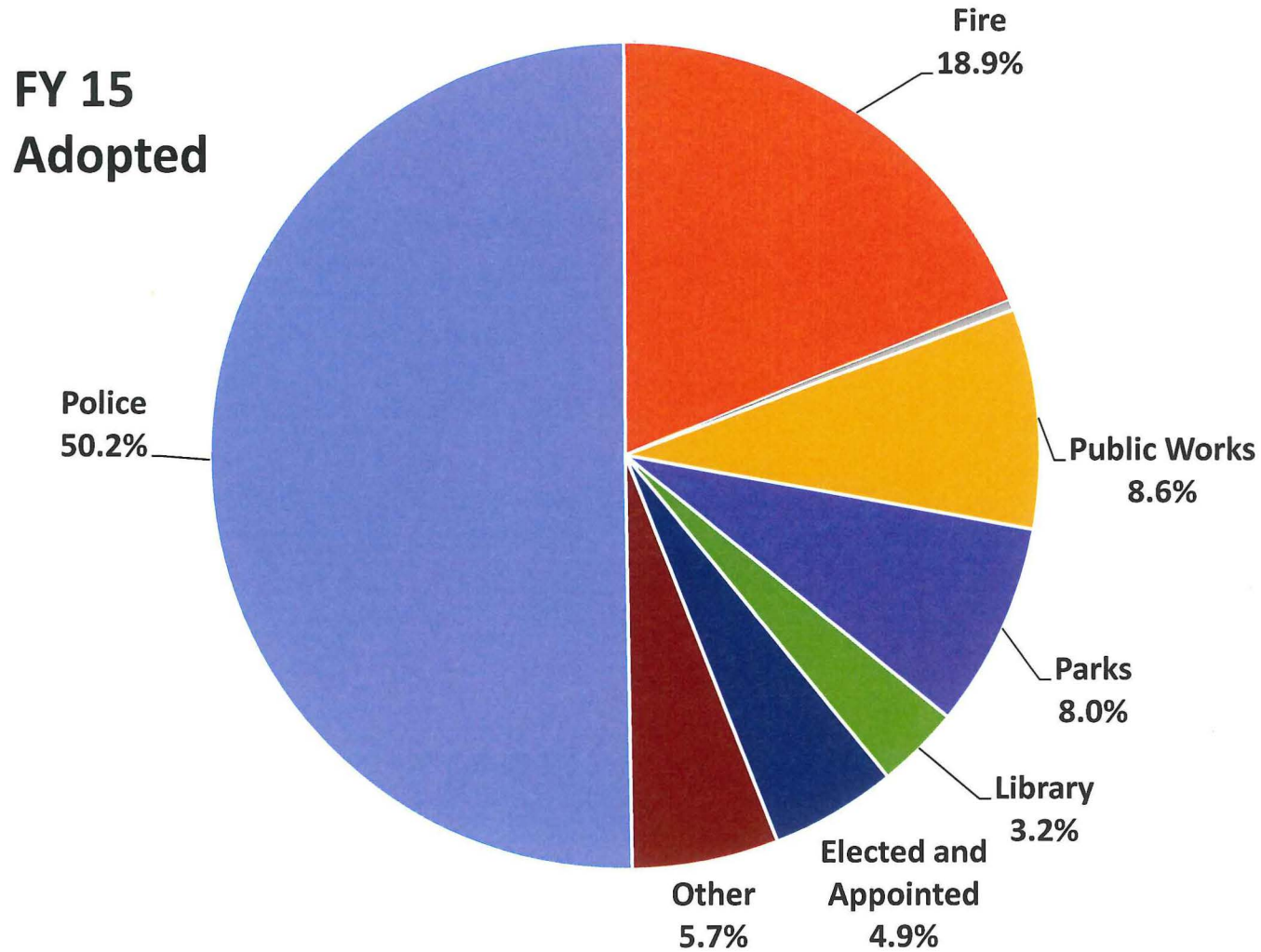
- Adopted in FY 11
- Allocates budget reductions in a manner that keeps each general City service at the same relative level of the budget as the previous year
- Not an across-the-board cut
- By design, incentivizes departments to become more efficient and penalizes inefficiency
- Recognizes the need for a balanced full-service city
- Recognized by the National Civic Review in a case study on fiscal sustainability



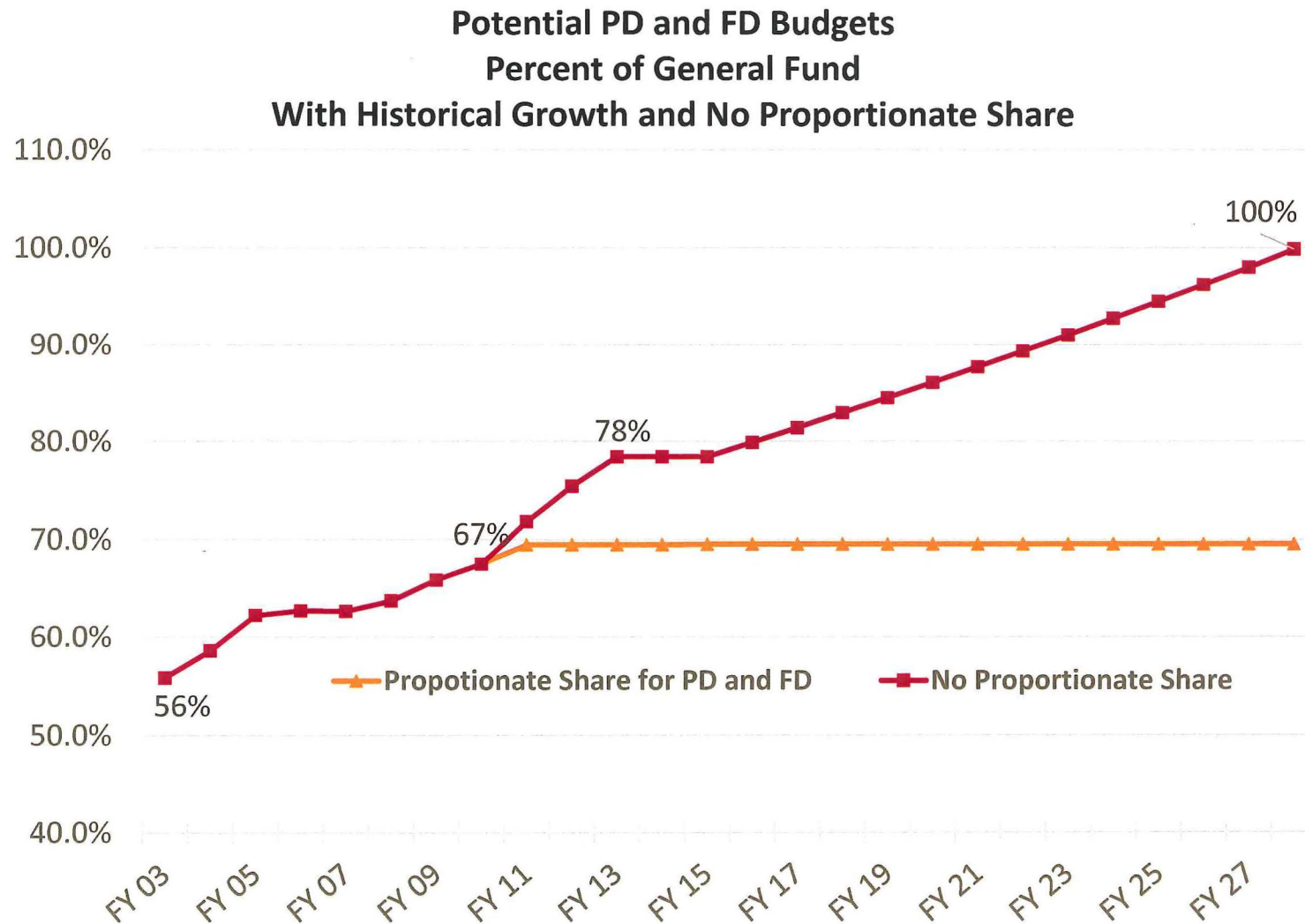
The Public Safety Continuum



Proportionate Share Maintains Balance



Without Proportionate Share, Police and Fire Could Become the Only Services



Why 70%?

- In FY 03, Police and Fire were at 56% and trending towards 100%
- When Proportionate Share was implemented in FY 11, it maintained Police and Fire at about 70% of the budget
- Cities tend to be in fiscal distress when they exceed 70% of General Fund Budget for Police and Fire
- Without Proportionate Share, Police and Fire would be at 78% of the budget today, which would effectively mean the City would no longer be a full-service City



What Today Would be Like Without Proportionate Share

- Police and Fire would be 78% in FY 15 and every department's budget would have been 35% less. Roughly equivalent to:
 - Elimination of all parks programs
 - Closing community centers in all 10 neighborhood, all 11 community parks and all 5 regional parks
 - Closing all 11 branch libraries plus cutting 3 librarians at Main Library
 - No neighborhood tree trimming (abutting property owners responsible)
 - No sidewalk maintenance (abutting property owners responsible)
 - 60 days or more to fix potholes
 - 30 days or more to eliminate graffiti
 - Need to contract out street sweeping and other operations
 - Council Offices would lose two staffers each
- To quote from the National Civic Review: “..without this policy, the city would have to exact draconian cuts...”



Budget Approach

- FY 15 – Be Cautious
 - Departments have been asked to closely scrutinize filling of positions, travel/training and other discretionary purchases
 - Will look at Tidelands more aggressively due to drop in oil
- FY 16 Approach – Minimal Reductions, Prepare for Future
 - Departments to prepare relatively small Proportionate Share reductions
 - Departments with Prop H and Tidelands Operations will also be asked to develop reductions to provide options to consider
 - No new services allowed without offsetting reductions
 - New police and fire academies will continue in FY 16
 - Develop plans in FY 16 for expected reductions in FY 17 and FY 18
 - Development of efficiencies, cost reductions and ways to maximize revenues will continue to be explored
 - One-time expenditures will be focused on reducing costs and meeting critical needs



Proportionate Share Target Reductions

(In Millions of \$)

	FY 16		FY 17		FY 18		3-Year Reduction
Police	0.51		4.59		3.63		8.73
Fire	0.19		1.76		1.39		3.34
Disaster Prep. & Emergency Com.	0.00		0.04		0.03		0.07
Public Works	0.09		0.86		0.68		1.63
Parks, Rec & Marine	0.08		0.74		0.58		1.40
Library	0.03		0.30		0.24		0.57
Elected & Appointed	0.05		0.46		0.36		0.87
Other	0.06		0.53		0.42		1.00
Total	1.02		9.25		7.33		17.60



Summary

- FY 16 is the last transition year to a more difficult time period beginning in FY 17
- Small reductions in FY 16. Much more significant reductions begin in FY 17.
- Long Beach must continue to take steps to a new economic reality and reduce expenditure growth to match the limited revenue growth
- Given previous cuts, the upcoming budget shortfalls will likely involve more visible service level reductions in the future
- Proportionate Share budget reductions as necessary to maintain a balanced, full set of services
- The budget situation is manageable due to the Mayor's and City Council's discipline and restraint



FY 16 Budget Timeline

- March 3 Fiscal Outlook Council Presentation
- March 11 Instructions to Departments
- By July 3 Submittal of Proposed Budget to Mayor
- July Capital Projects Presentation
- By August 2 Mayor Submits Proposed Budget to City Council
- August Community Budget Meetings
- August Budget Oversight Committee Meetings
- August 4 Budget Meeting (tentative)
- August 11 Budget Meeting (tentative)
- August 18 Budget Meeting (tentative)
- September 1 Budget Hearing and 1st adoption date
- September 8 Budget Hearing; 2nd adoption date



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